Edge Realty
Analytics

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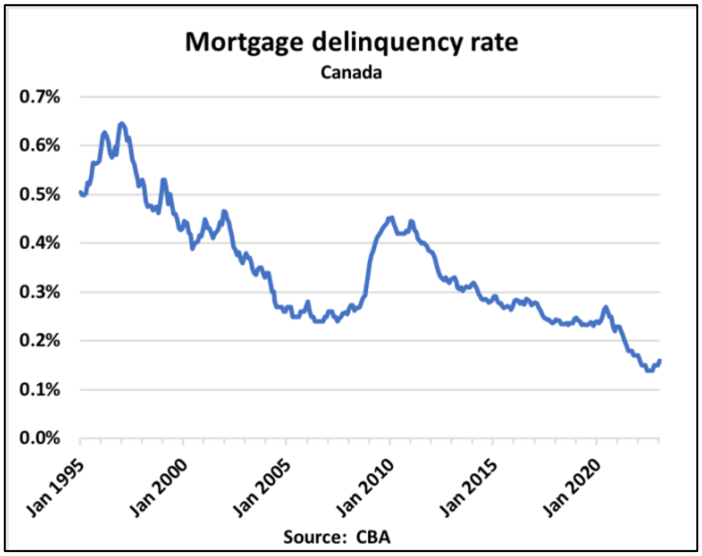
May 2023
Metro deep-dive- April data

Quick links:

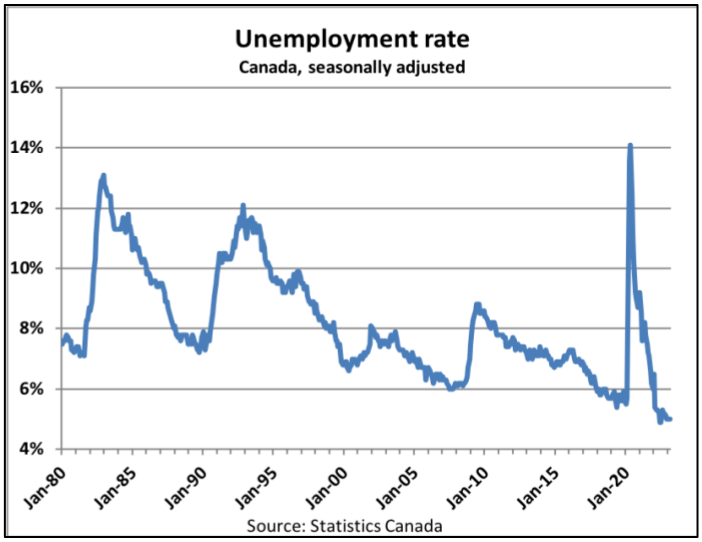
Prepared For:

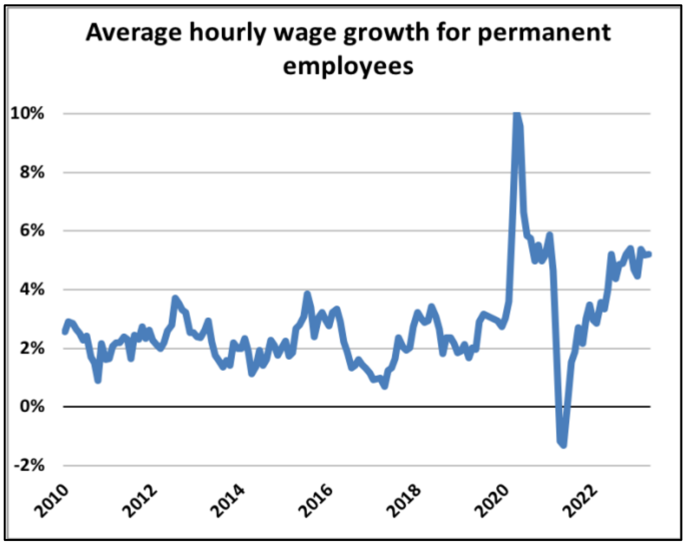
1) Consumer insolvencies point to rising credit stress

Mortgage delinquencies remain near record lows at just 0.16% nationally, but this indicator tells us more about how the economy fared a year ago than it does about today. For starters, some mortgages aren't even reported as in arrears until borrowers have missed payments for 6 months.

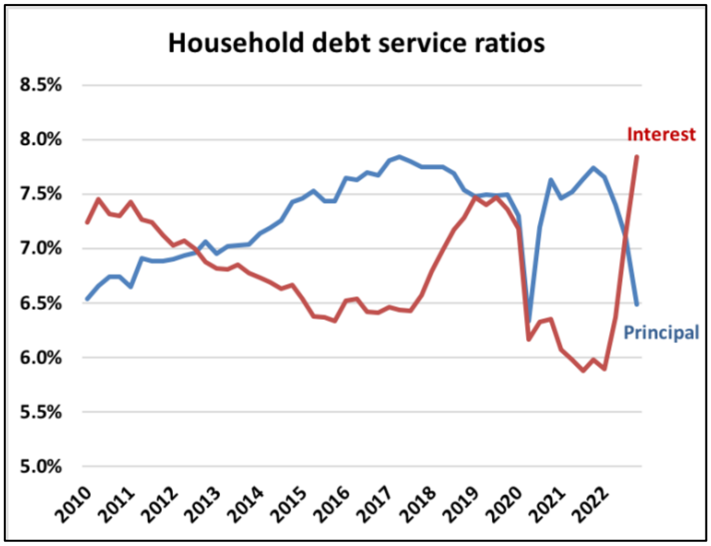


Still, we're a year into a serious rate hike cycle so it's been a surprise just resilient borrowers have been. A strong labour market with record low unemployment rate and strong wage growth that's still north of 5% has no doubt helped…



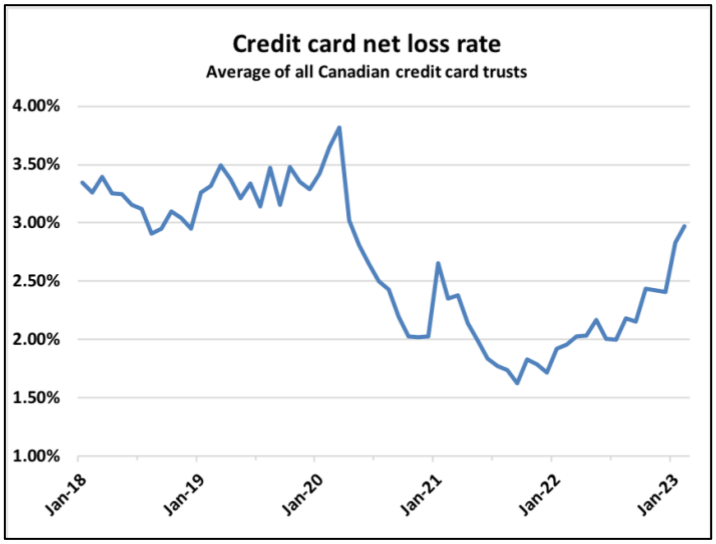


…but there's more to the story. As shown in the chart below, interest costs as a share of household income has risen to decade highs but it's been partially offset by a steep decline in principal payments. This is due to longer (or even negative) amortization on static payment variable rate mortgages.



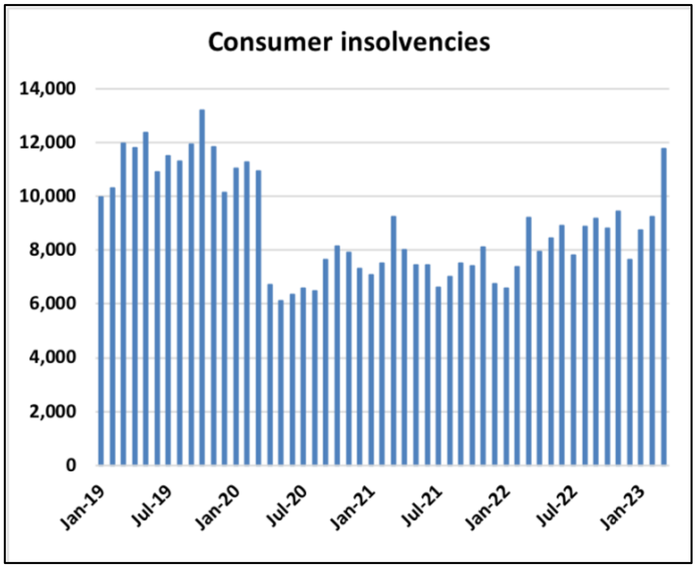
The key takeaway is that consumers are still largely being insulated from the impact of higher rates. By my math only 1/5 of mortgage borrowers have felt the full impact of rising interest rates so far. As they do, we can expect the debt service ratio to rise to record highs by early 2024.

But here's the concerning part. Even with a robust economy and consumer still shielded to a large extent from higher rates, we're seeing mounting signs of stress. For starters, loss rates on credit cards are starting to really move, up 50 basis points in the past 2 months alone:

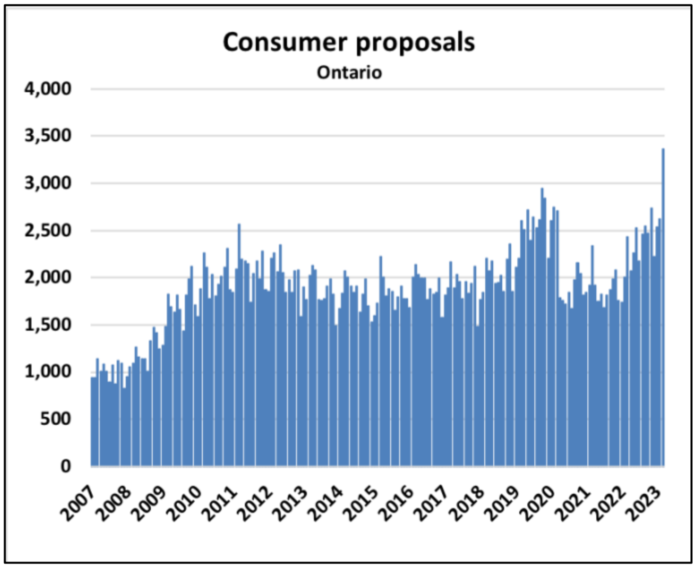


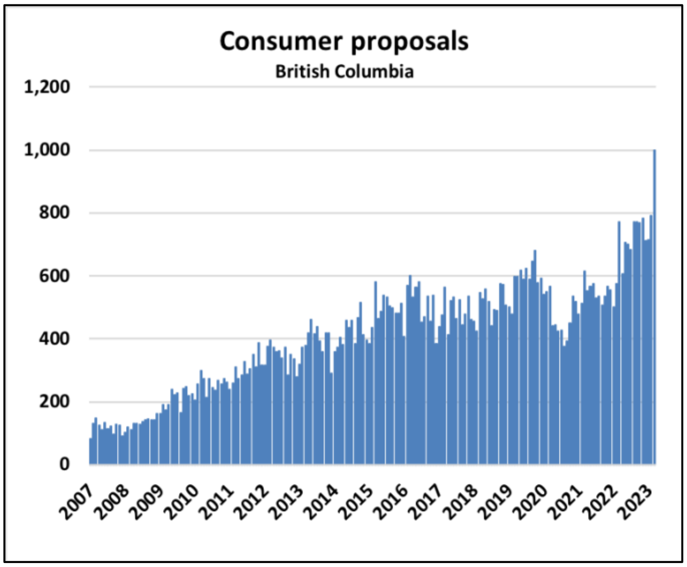
This is important since no homeowner defaults on their mortgage without first falling behind on credit cards. The mortgage is always paid first. So trends in credit cards always lead trends in mortgage defaults, typically by 6 months.

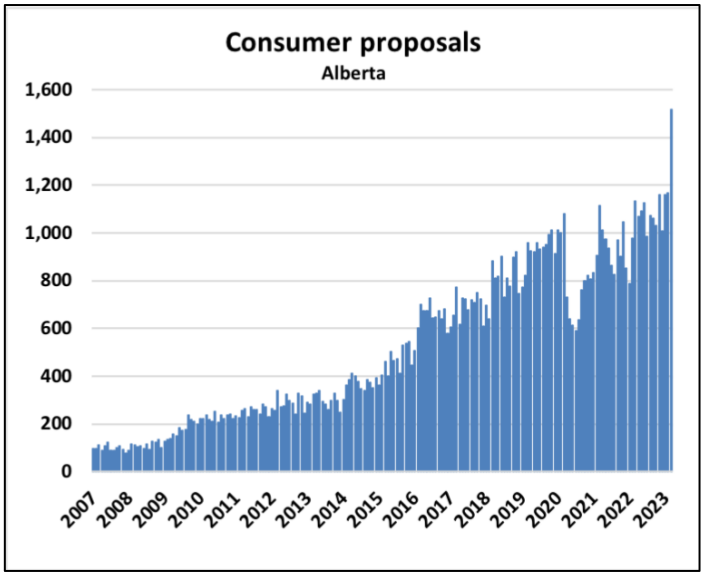
More concerning is the latest data this morning showing a steep increase in consumer insolvencies in Canada. We just saw the highest number of filings since 2019 in March:



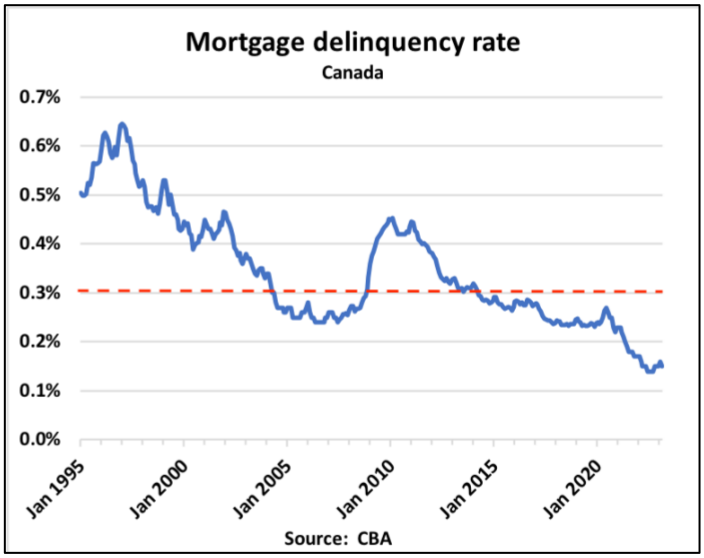
But within those numbers we saw consumer proposals really spike. Proposals (as opposed to bankruptcies) represent a restructuring of UNSECURED credit (ie credit cards, unsecured lines of credit, and even the underwater portion of home or auto sales):







This is yet another sign of stress building under the surface. I continue to expect mortgage delinquencies to double in the next year, but there's a real chance that they could rise more than that if we get real softness in the broader economy. That sounds like an extreme prediction, but consider just how low arrears are currently and what a 30bp arrears rate looks like in historical context:



Not a disaster by any means, but now is the time to monitor these trends closely since they could start to really move.

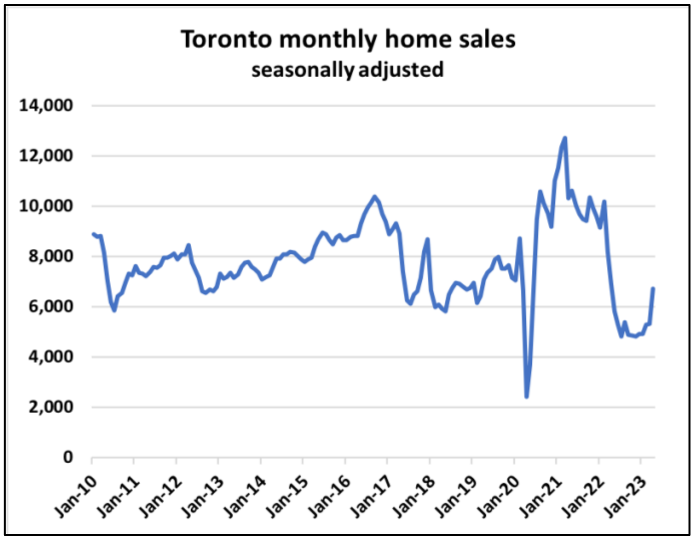
Prepared For:

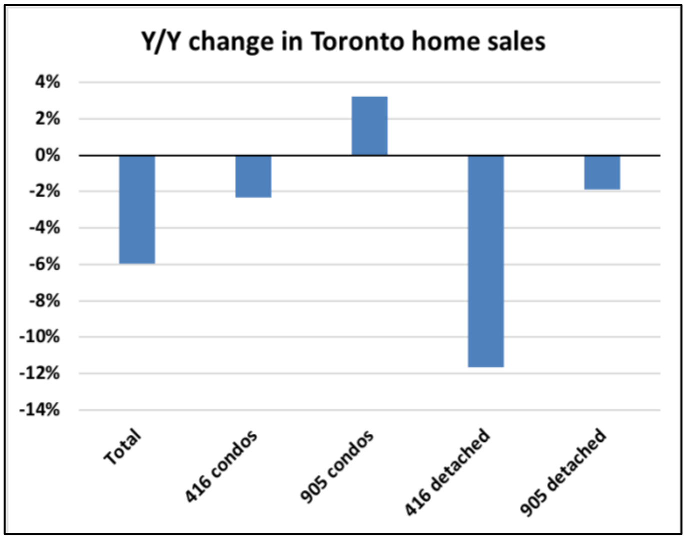
2) Demand springs to life in Toronto, but still no sellers to be found

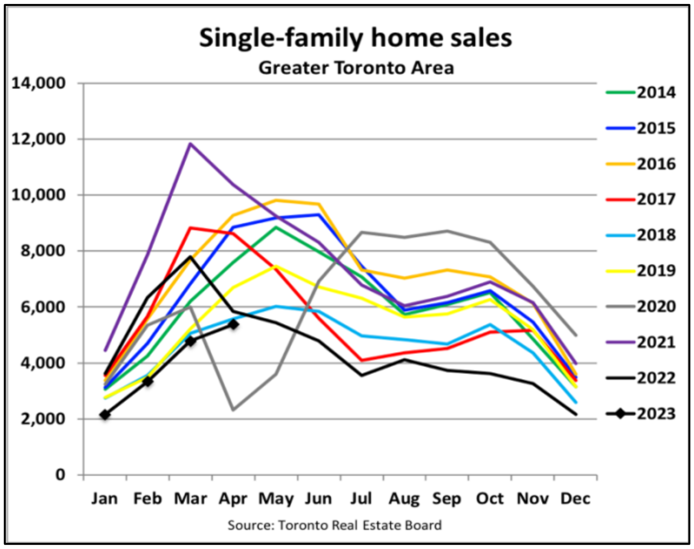
I expected a 20-30% increase in sales this spring….I just didn't expect it all to come in one month.

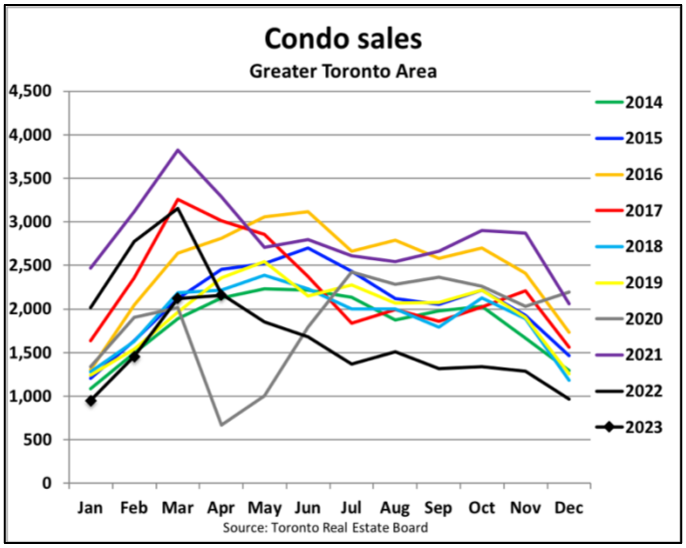
Seasonally adjusted home sales surged 27% m/m in April… a stunningly large increase that represents the largest since the rebound off the depths of the COVID lows.

It's clear that demand is rebounding, but looking at the raw numbers I would argue that the seasonal adjustments look a little aggressive. It wouldn't surprise me at all to see a chunky downward revision either next month or when the CREA data is released next week.

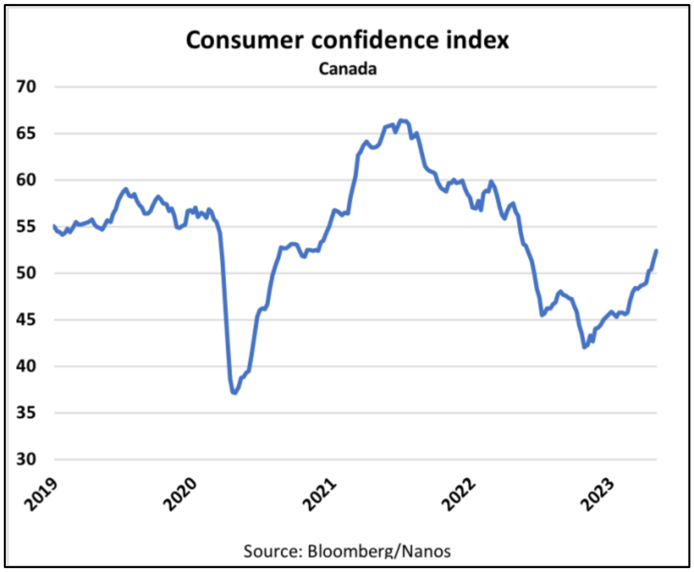


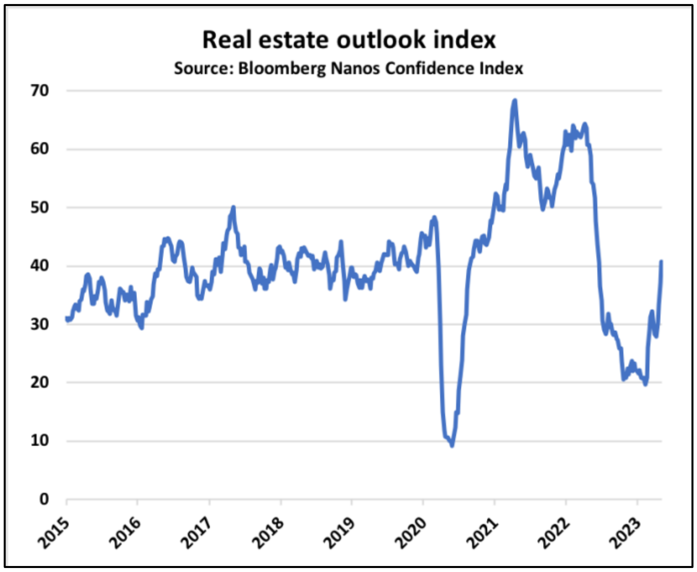




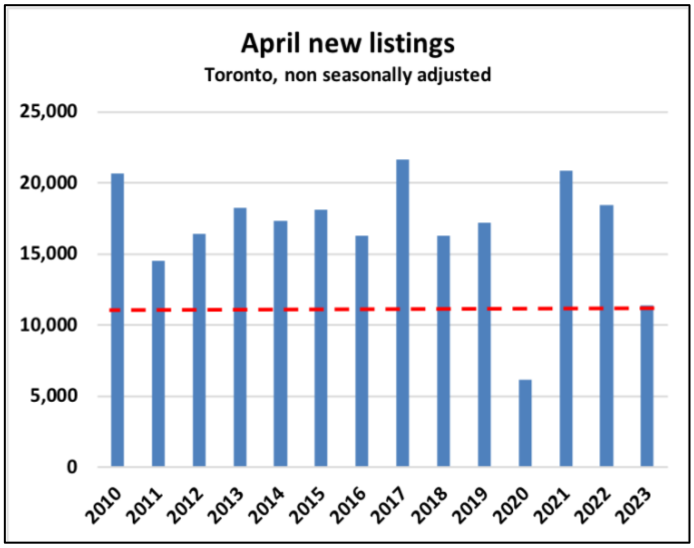


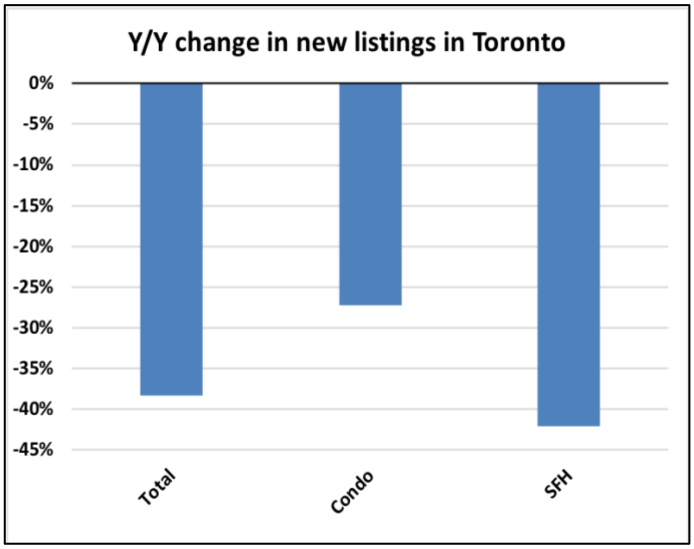
Chalk this up in large part to rebounding confidence now that we have some clarity around the Bank of Canada's end game with rates (ie there's a good chance they're now done for this cycle). Overall consumer confidence is back to 2-year highs led by a strong resurgence in the real estate outlook component:



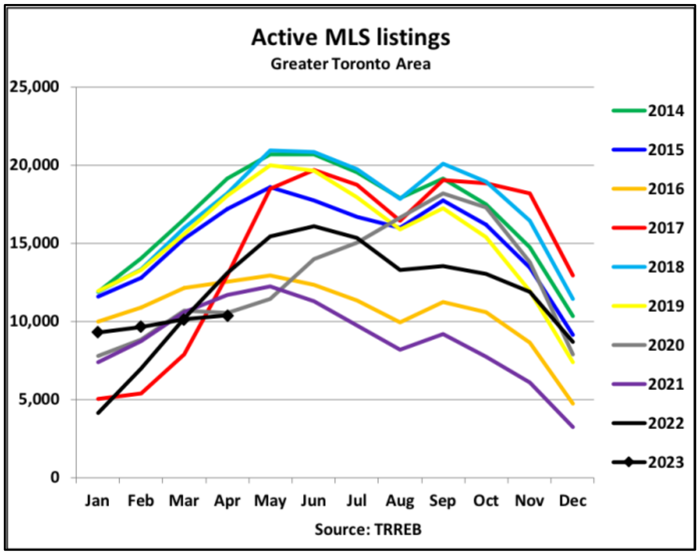


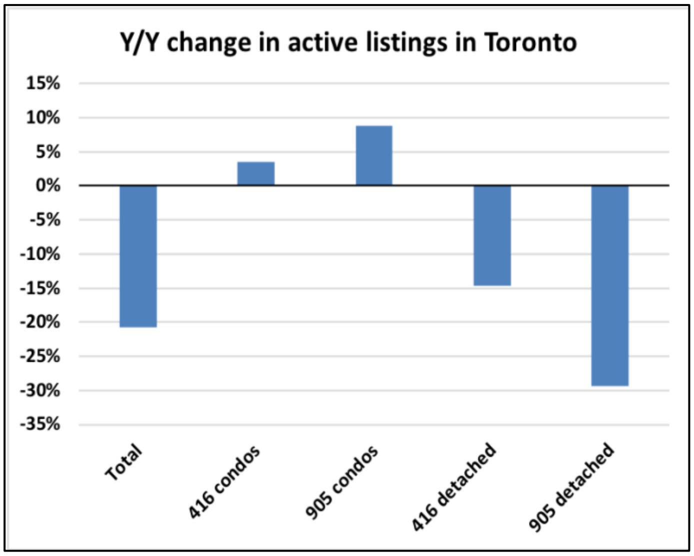
While rising sales get all the headlines, those in the know are watching new listings and inventory trends. And here, the story is categorically bullish. New listings plunged again in April, down nearly 40% y/y to hit the second lowest level for the month in 20 years:

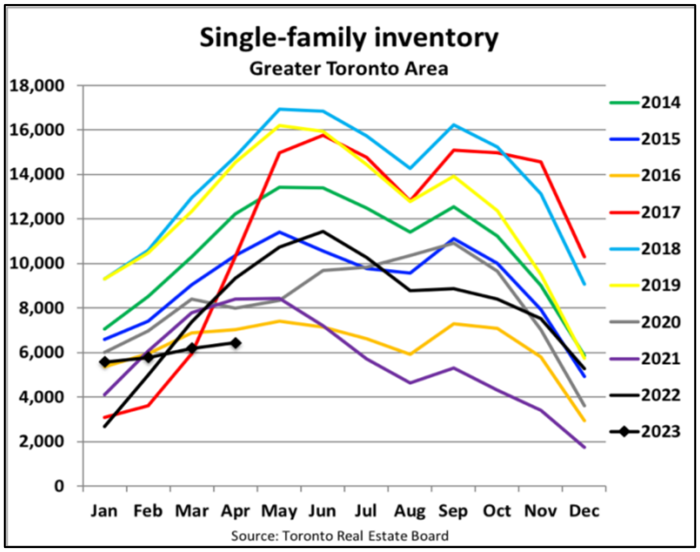


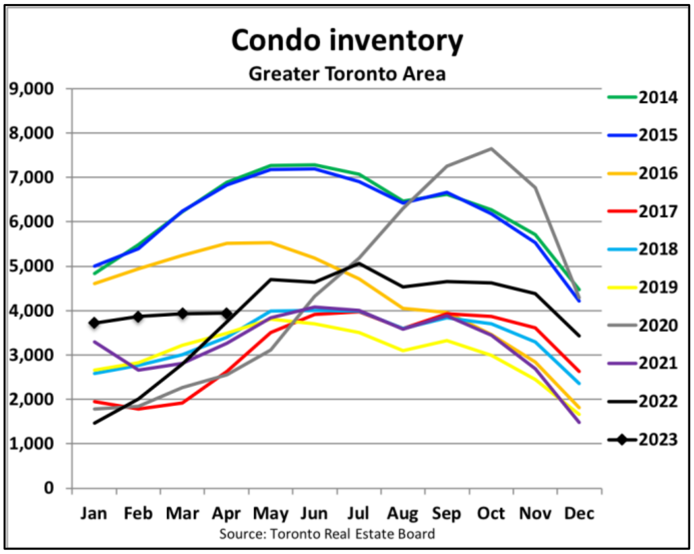


Consequently, active inventory is in free-fall, down 21% y/y overall to sit at the lowest April level in over a decade, and down nearly 30% in the suburban detached segment:

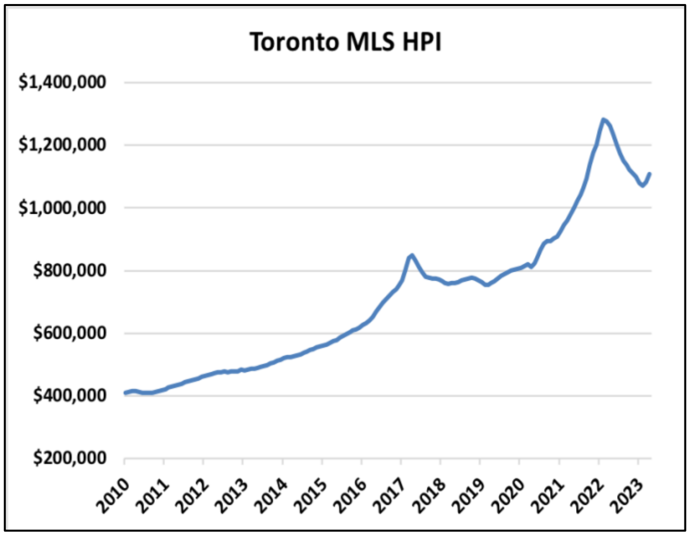


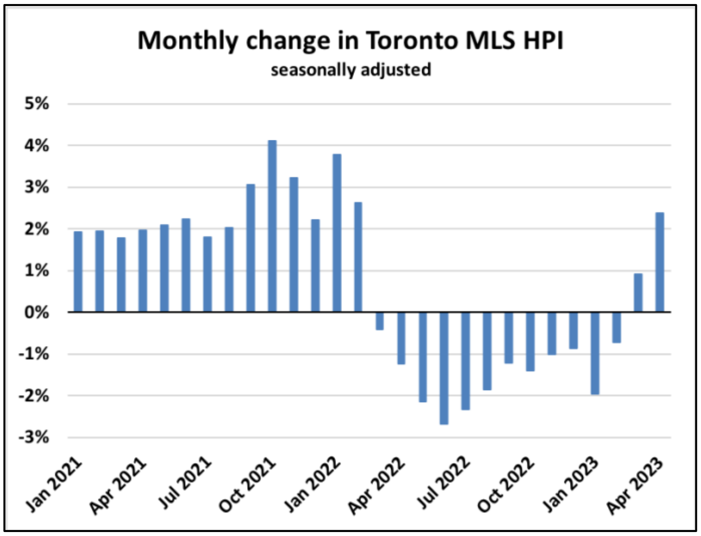


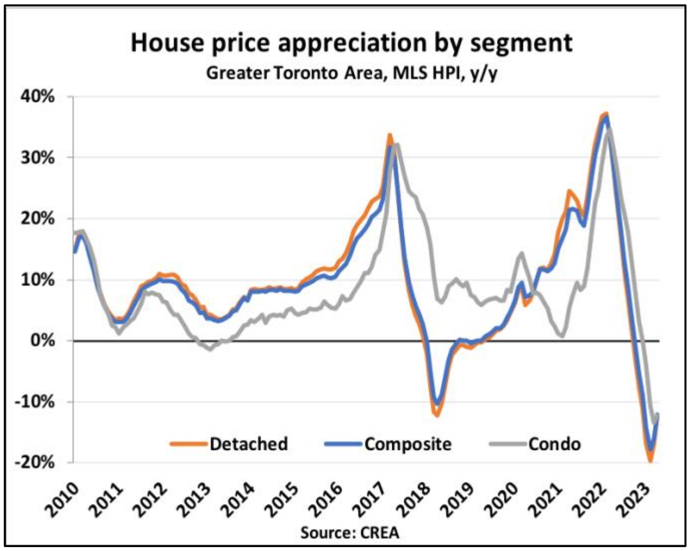




As one might expect given the tightening market, house prices are back on the rise with the seasonally adjusted HPI posting a 2.4% monthly gain:



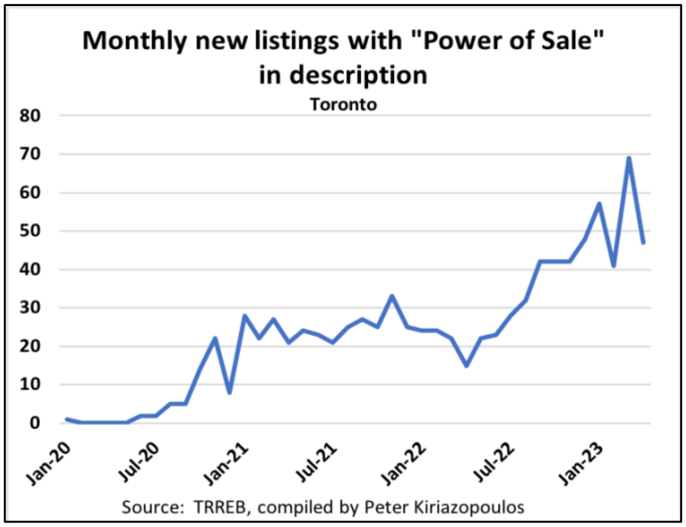




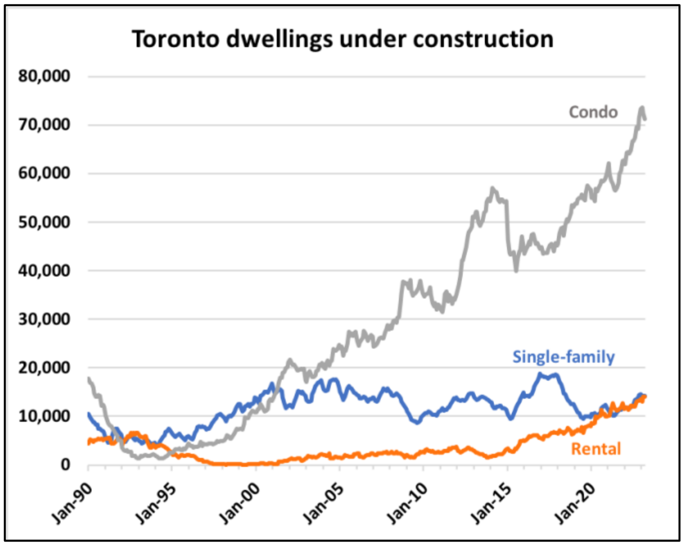
We're also now seeing the sale price-to-list price trend sharply higher…a sign that bidding wars are back in a big way.

Prepared For:

Nothing bails out struggling homeowners like rising prices, so it's not a surprise that power of sale listings ticked down last month (thanks again to Peter Kiriazopolous for the data):

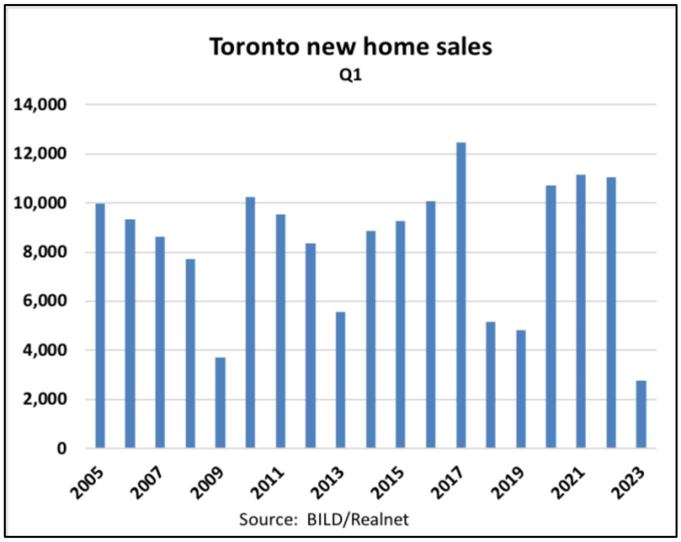


Compounding the supply issue is the fact that we've now seen dwellings under construction decline for 3 straight months including a 1.1% decline in March:



That figure is likely to fall further based on preconstruction trends where Q1 new home sales plunged 70% y/y to hit the lowest level in at least 20 years. This will affect construction activity later this year.

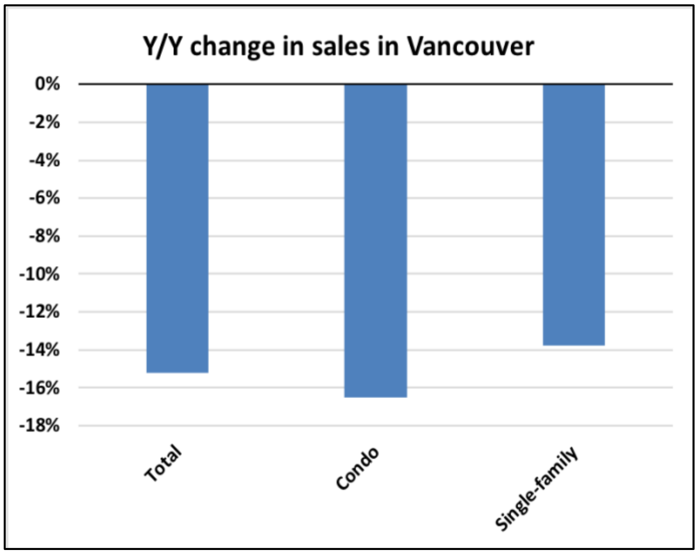
Prepared For:



In summary, Toronto's resale market is quickly returning to the FOMO-driven mania that dominated the post-COVID recovery period. The risk now is less about another leg lower in prices, but rather a surge higher that forces a response from OSFI (which is currently deliberating a further tightening to B20 regs) or the Bank of Canada.

3) Vancouver demand continues to firm

Seasonally adjusted home sales in Vancouver have now surged 50% over the past 3 months including a whopping 22% increase in April based on my math. That leaves sales 15% below year-ago levels but improving rapidly.



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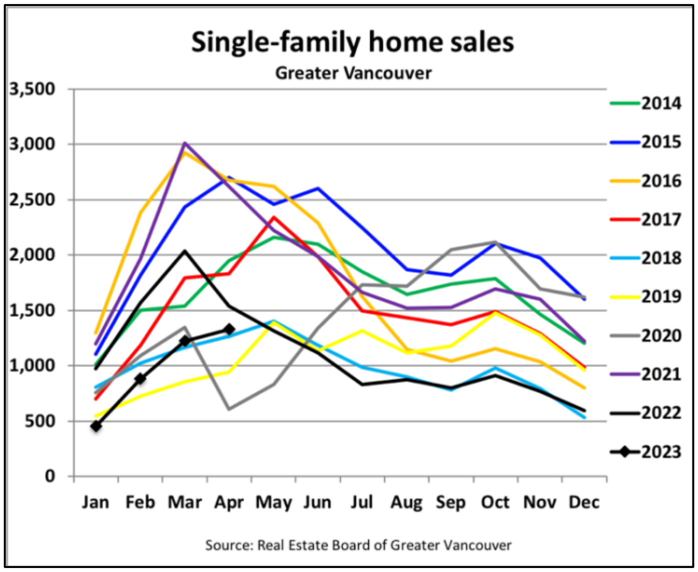
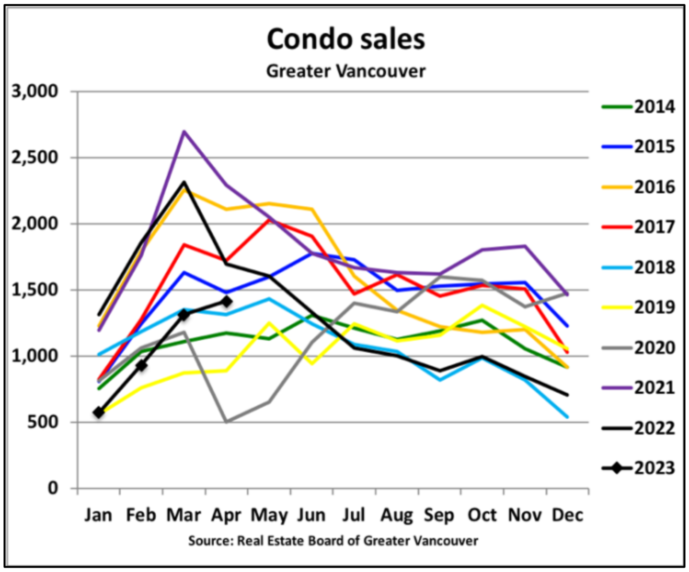
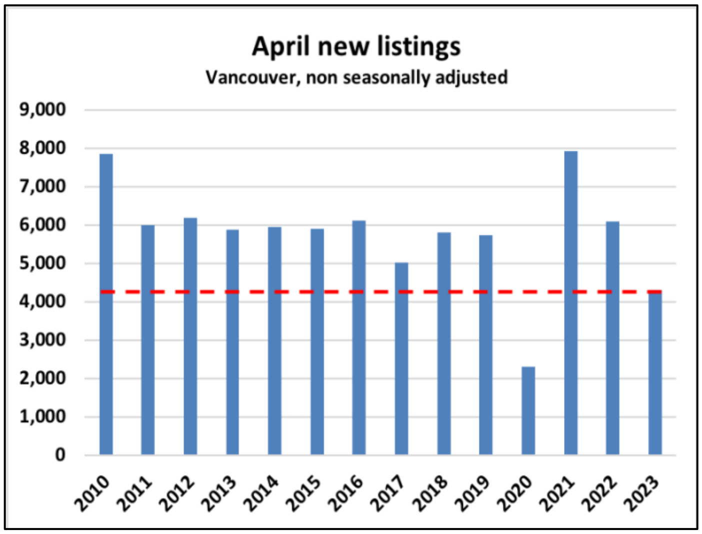
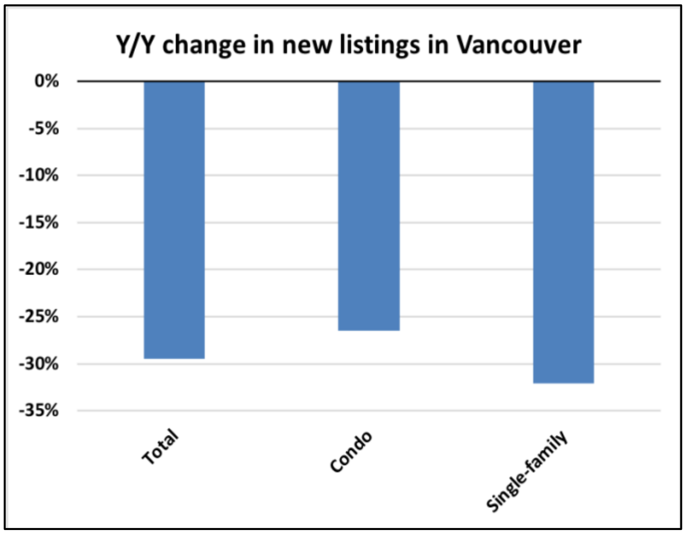


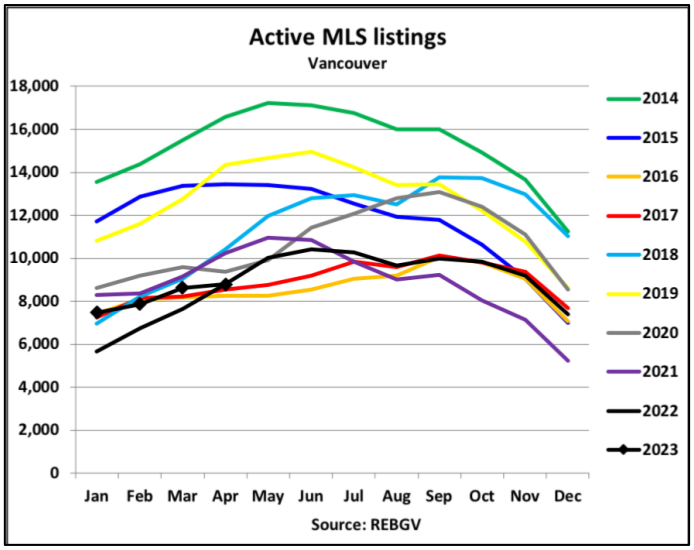


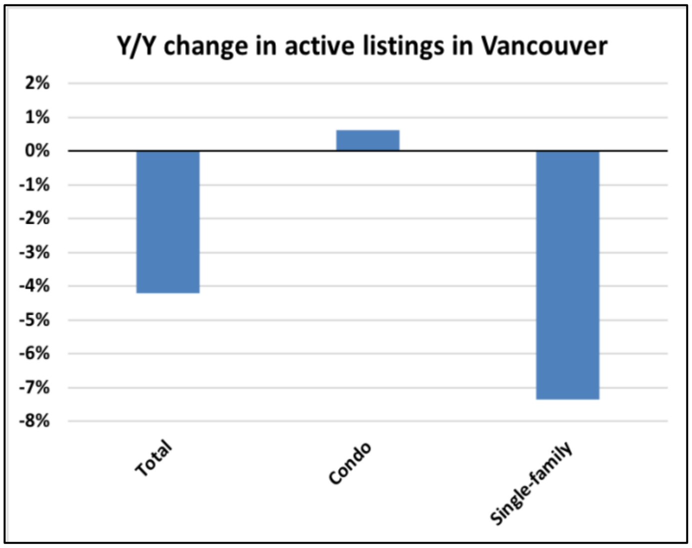
New listings came in at the second lowest level of the past 20 years, down nearly 30% y/y:



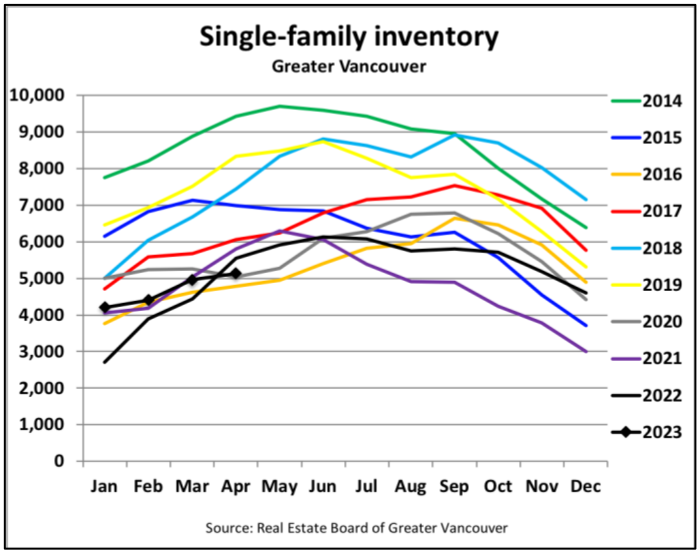


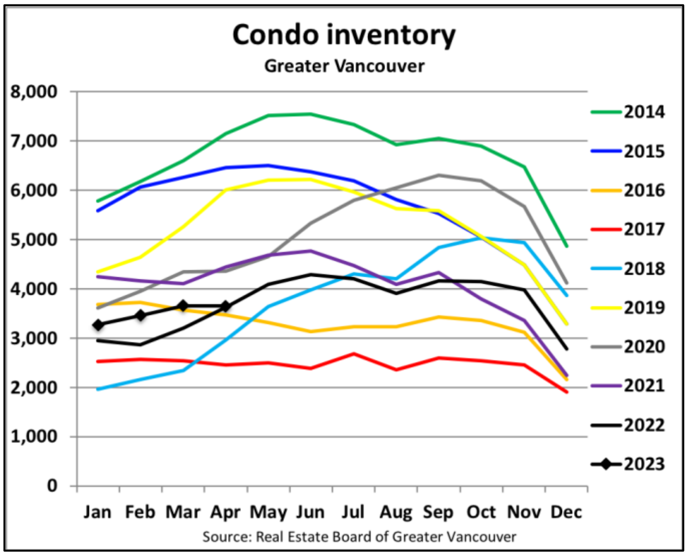
Active listings are back on the decline, down 4% y/y and well below decade norms for this time of year.



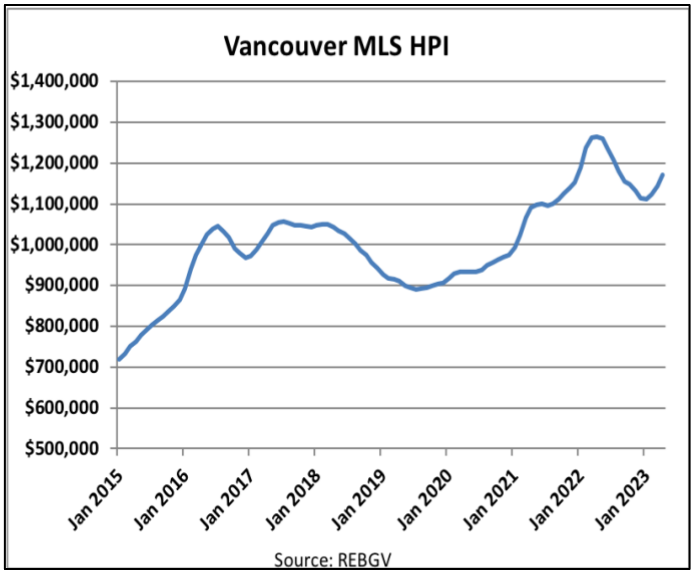


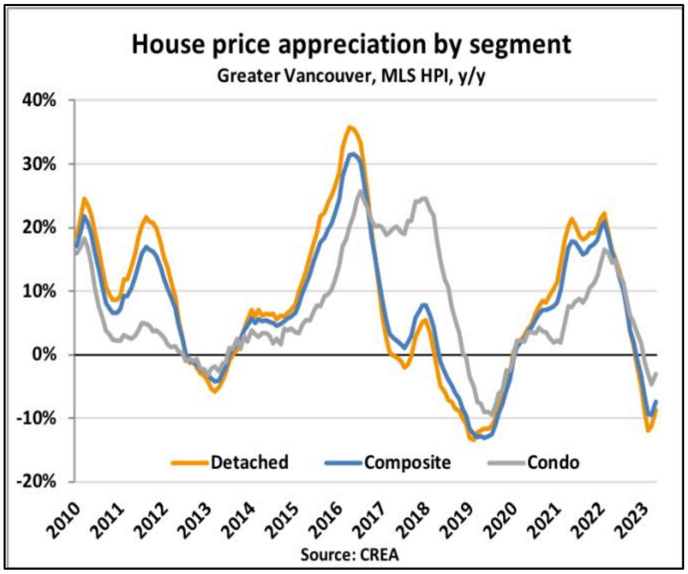
Of particular concern is the very low level of single-family inventory which is as low as it's been since 2016:



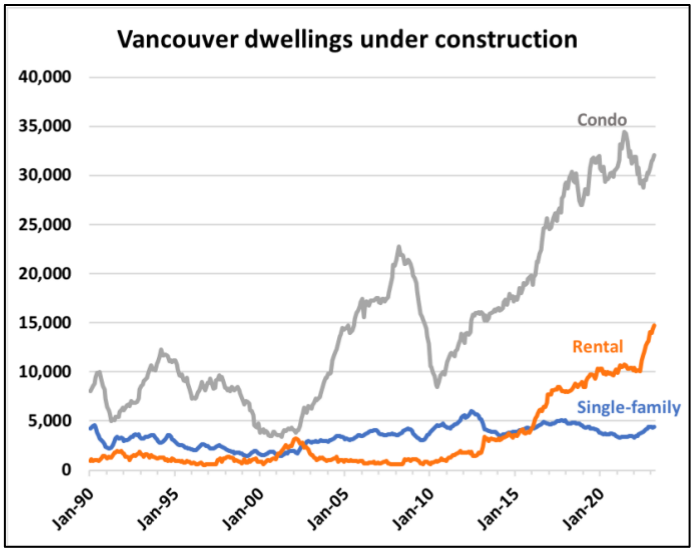


Prices are firming with the HPI up 2.4% (albeit not seasonally adjusted):





Dwellings under construction ticked up 1.9% m/m in March led by increases in the rental and condo segments:

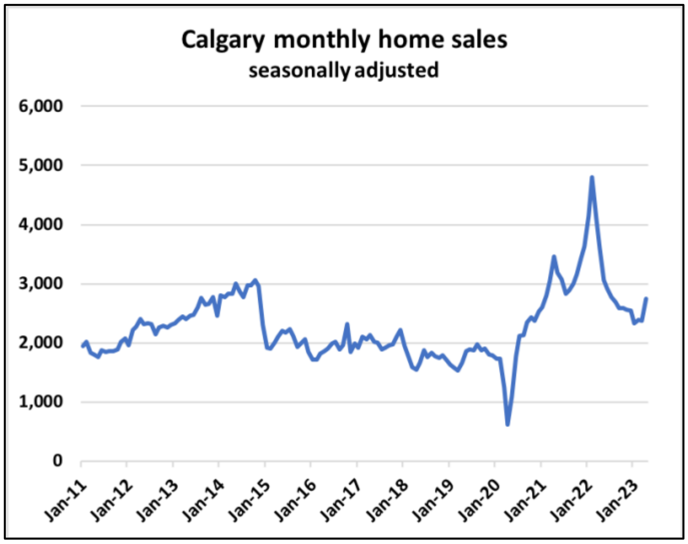


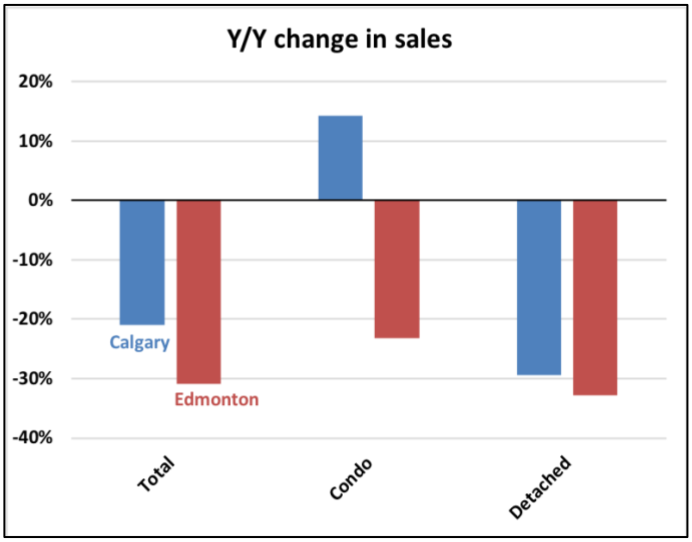
As with Toronto, the risk here is that prices surge to the upside in coming months and force a response from regulators and policy makers.

Prepared For:

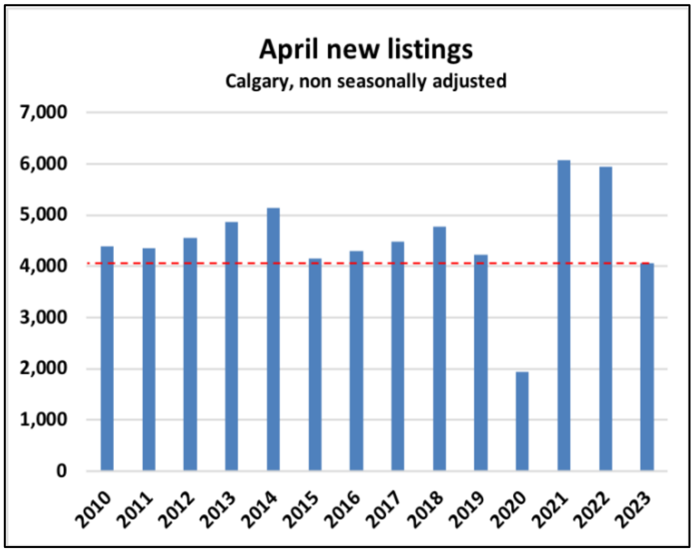
4) Inventory levels in Calgary drop to new lows

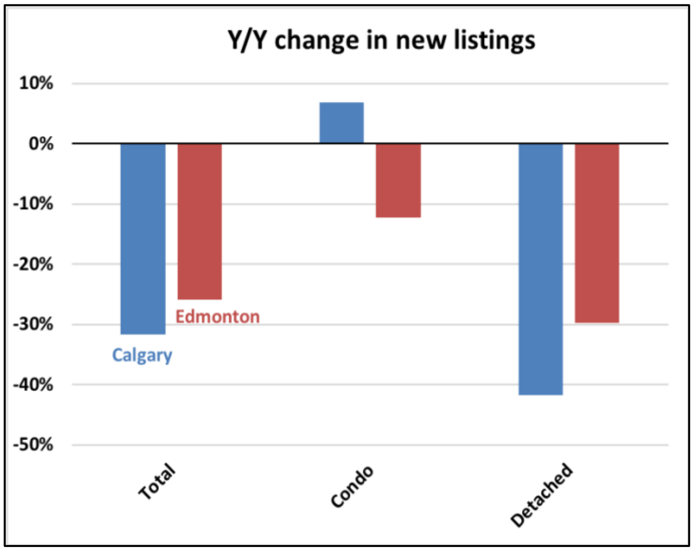
Seasonally adjusted home sales in Calgary jumped 15% m/m and an estimated 6% in Edmonton. Still that leaves demand over 20% below year-ago levels in both metros:



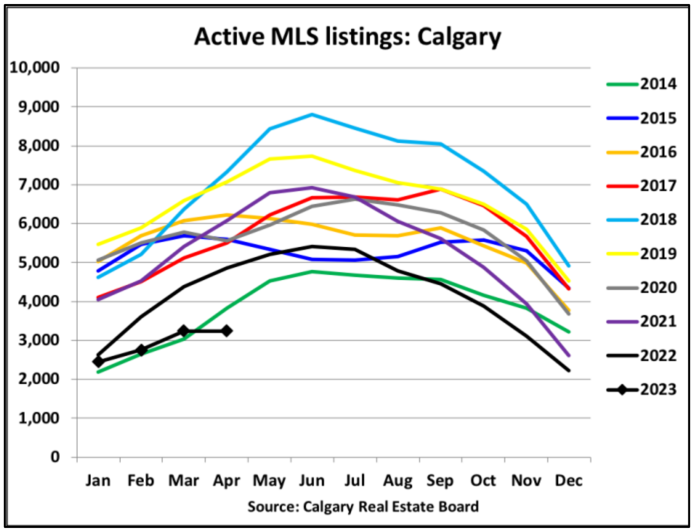


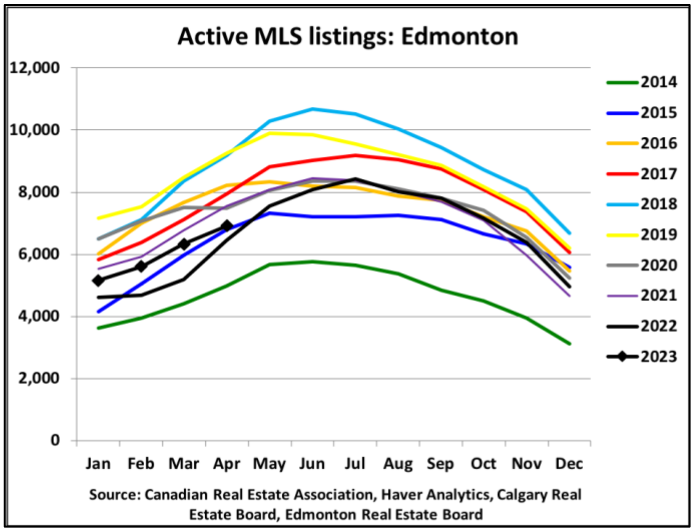
New listings in Calgary were down by 30% relative to April 2022 but that's largely to base effect story due to elevated listings last year at this time. New listings were only marginally below decade norms, unlike the trend in Vancouver and Toronto:

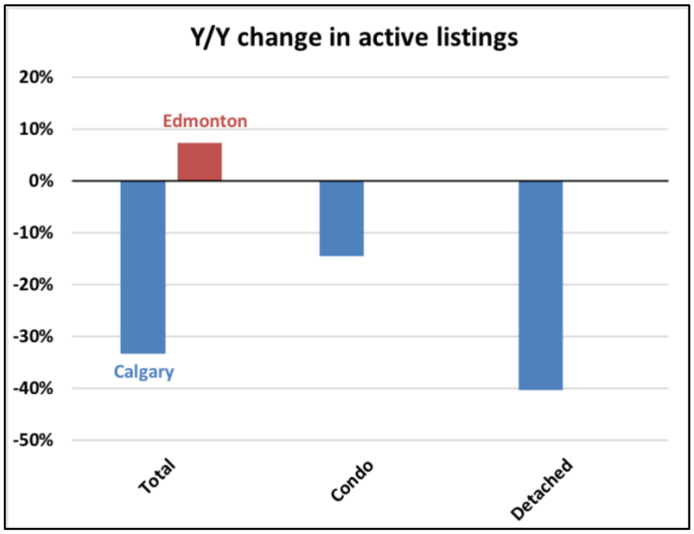




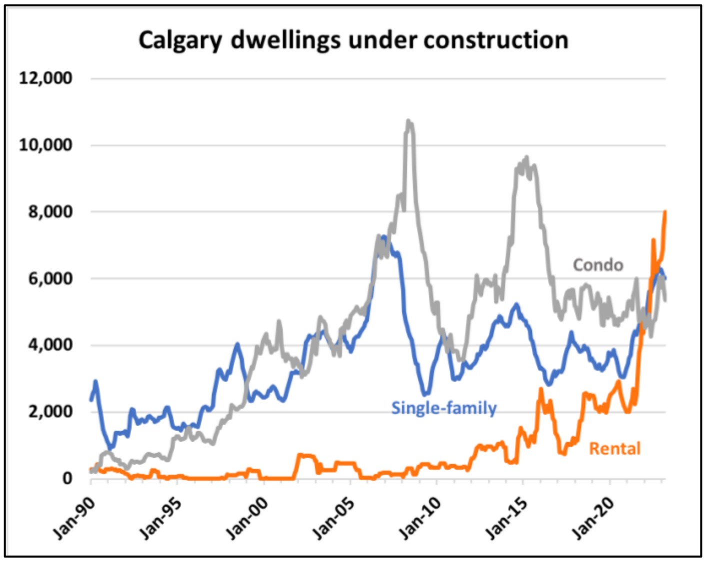
But with demand still solid and new listings down, we're seeing inventory levels drop to what might be called "crisis" levels in Calgary. Active listings in April dropped to new decade lows for the month and are 1/3 below year-ago levels. Things are a bit more balanced over in Edmonton:





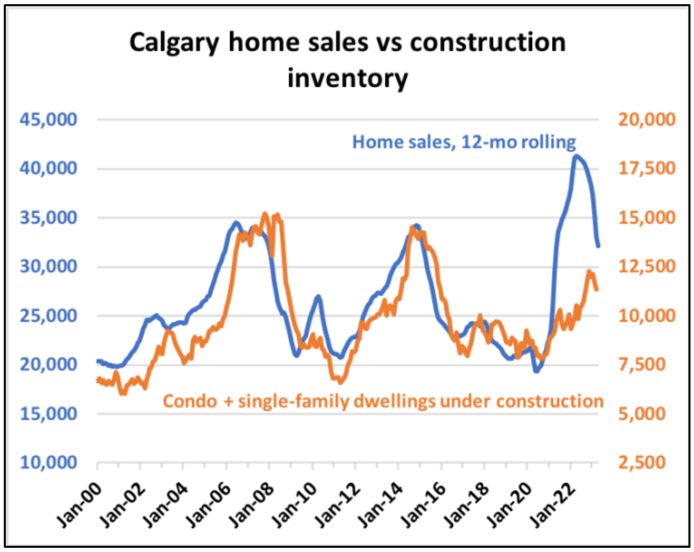


Under construction inventory rose 0.7% m/m led by another big jump in rental construction activity. We now have over 8,000 purpose-built rentals under construction across the metro region.

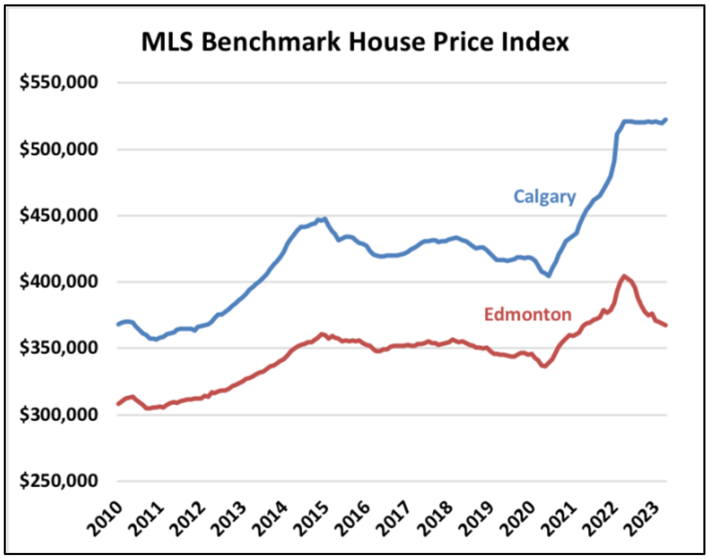


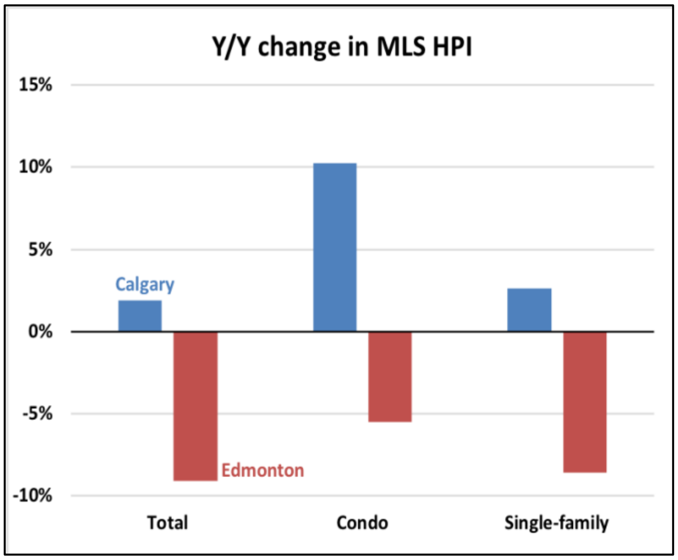
Prepared For:

When we back those rentals out to show "homeowner" dwellings under construction we find that we're still well below where we should be given trends in the resale market. This has been a pretty reliable indicator that has always warned of overbuilding and cyclical peaks in the resale market. We're not near the danger zone yet:



Prices rose slightly in Calgary (+0.3% seasonally adjusted by my math) while they ticked down an equivalent amount in Edmonton. Calgary remains one of only a handful of metros across the country where prices are still higher relative to last year:





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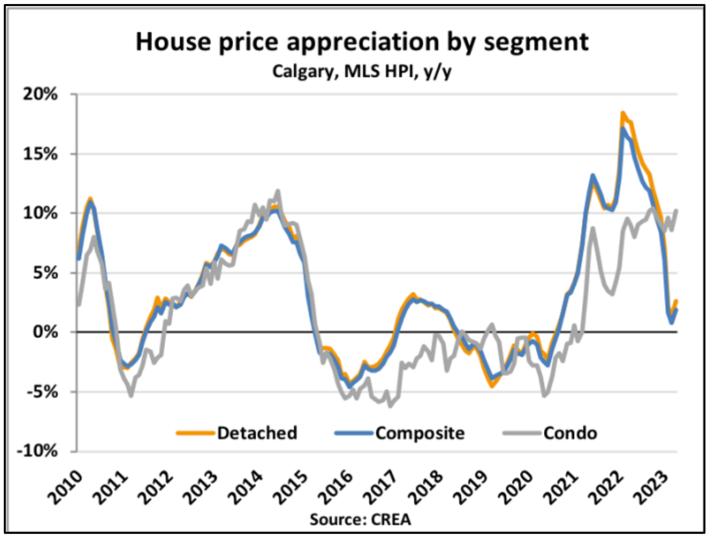

Have a great day!
Ben

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